

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 8, 2003
To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
From: Jerome J. Heer, Director of Audits
Subject: Quarterly Report on Projected Surplus/Deficit in the Employee Health Benefits Account [File No. 02-503 (a)]

As part of the 2003 Adopted Budget, the Department of Audit was directed "...to provide monthly reports for the first quarter of 2003 and quarterly reports thereafter, unless otherwise determined, regarding the projected surplus/deficit in the employee Health Benefits account." At its meeting January 16, 2003 the Finance and Audit Committee directed the Department of Audit to provide subsequent reports in April, July, October and December. The budget directive was approved as an amendment to the County Executive's Proposed Budget in light of concerns expressed in a joint memo from the County Board Director of Research and the Director of Audits, dated October 17, 2002. That memo, which provided an analysis of the Health Care Cost Reduction Plan included in the proposed 2003 budget, cautioned that monitoring reports of actual health care costs throughout 2003 would be prudent, given the uncertain nature of various assumptions upon which budgeted health care costs are, by necessity, built.

It should be noted that expenditure information available from the County's financial system as of June 30, 2003 is preliminary and almost certainly does not represent one-half of the actual health care costs ultimately borne by the County for 2003. However, figures at this time are tracking almost precisely on budget when viewed in terms of the percentage of actual annual cost incurred at this same time last year. Stated another way, preliminary year-to-date 2003 health care costs as of June 30, 2003 of \$38.2 million are approximately 47.4% of the total 2003 appropriation of \$80.6 million, or virtually identical to the percentage of total actual 2002 expenditures recorded at this same time last year.

It is important to note that several factors may affect the direct comparability of these figures. For instance, the 2003 expenditures include payment of \$460,000 to the previous claims administrator in 'run-out' administrative charges for 2002 medical service claims. Since this payment will not recur in the next three quarters, this tends to provide a 'cushion' in the 2003 appropriation. On the other hand, health care costs are not entirely predictable, and one year's pattern or pacing of expenditures may not be replicated in the following year. For instance, to the extent certain high-cost episodes of health care needs arise among covered County employees or retirees in greater proportion than the previous year, County health care costs could experience an unexpected 'spike.'

Nevertheless, at this time, given the preliminary nature of available information, Milwaukee County health care costs appear to be on budget.



Jerome J. Heer

JJH/cah

cc: Finance and Audit Committee Members
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Matt Janes, Employee Benefits & Services Manager, DAS-Human Resources Division
Rob Henken, County Board Director of Research
Lauri J. Henning, Chief Committee Clerk, County Board Staff